

Instructions for Worksheet # 6a: Financial Analysis (Pro Forma and Sources and Uses Chart)

Financial Analysis (Worksheet # 6a)

The Financial analysis [Worksheet # 6a](#) provides spreadsheets to develop a simple Pro Forma and a Sources and Uses Chart. The instructions for each are provided below.

Pro Forma

Pro Forma is a rough estimating tool that can be used to preliminarily assess issues such as:

- the potential financial viability of different reuse scenarios
- the relative effect of various cost and revenue assumptions on profitability
- the amount of subsidies or incentives needed to attract a developer.

On the Pro Forma Assumptions worksheet, complete the following:

- 1) Shaded areas in the spreadsheet are calculated cells. Outlined areas require input.
- 2) Insert the purchase price in line A1. This can be the offered sales price, a negotiated amount, or it may be based on an appraisal. It is also possible that the underlying land title will not change, thus there may be no purchase price and the value in this cell will be zero. In addition, liens or defaults may exist which need to be remedied.
- 3) Environmental remedial action costs are input into line B1 through B3. These costs may be defined already as part of the cleanup plan or they may need to be estimated. Line B4 will add these three lines together.
- 4) This *pro forma* shows two separate development areas. The project may have one or several distinct areas requiring data. Thus, development areas can be added or subtracted. Line E1 totals the hard costs for all building types.
- 5) If new construction is involved in the project, complete lines C1 through C5. Estimate the square feet to be constructed and the cost per square foot by building type. Leave unused building categories blank or delete those lines. Worksheets detailing costs will likely be needed to identify and support the various cost elements in the *pro forma*. Costs can include clearing and preparation of the property, foundation work, structural and exterior work, mechanicals, and interior finishing. Ongoing maintenance costs and upfront infrastructure costs may require funding prior to construction or during the development phase before there are revenues to cover them. Two such examples are fencing and mowing.
- 6) Existing buildings are more complicated. Asbestos removal and other preparation may be required. Costs can include demolition or partial demolition with renovations. These projects generally have more unknown or hidden costs and are therefore riskier. Insert estimated demolition costs in lines D1 and D2. Insert renovation costs per square foot by building type into lines D3 through D6.
- 7) If there will be new construction along with renovation of existing buildings, complete lines D7 through D11.
- 8) Total Soft costs are calculated as a percentage of hard costs. These are shown in line F1. Additional due diligence is required on these types of projects, thus there may be more investigative costs. These can include: reuse analysis, negotiating access rights and

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project visioning. By this point in the overall evaluation process, some of these soft costs and remedial action costs have been incurred, thus estimating 20% for soft costs overall for the developer is not unreasonable. Soft costs for all standard development projects include site plans, engineering, legal, soil testing, architectural plans and marketing plans. A detailed breakdown between disciplines is not needed at this point.

- 9) Carrying costs represent interest calculated on cash invested or borrowed for development of the property. Interest on the initial purchase will be calculated from the date of transfer, whereas interest on development is calculated based on an average over time. The interest rate should reflect current rates with some adjustment based on the overall risk of the project. Complete lines G3 through G4 and G6 and G7.
- 10) What are the sources of financing? Who is going to cover the costs, especially the earlier costs? How much cash will be needed to promote reuse and who will bear the burden of this cost? There may be different levels of financing in different phases. Ensure that these questions are considered.
- 11) The purchase price, remedial action, hard and soft construction costs and carrying costs are totaled at H1. This cell should represent the total anticipated cost of development.
- 12) Analyzing the financial viability of a project also involves determining its end value. One approach to this is to use the property's appraised value; this can be based on market comparisons or the property's potential reuse. Note that this type of valuation can be impacted by environmental conditions, decreasing accuracy or making it altogether impossible to compare to other properties. The second approach is to determine the property's anticipated revenue stream. Rents, for example, can be estimated per square foot and projected with escalations over time by type of building. This information is gathered and input in lines J1 through J4.
- 13) Net operating income can be derived by subtracting operating expenses from rental rates. Obtain operating expenses and management fees on a per square foot basis using industry standards by building type. Local real estate experts should be consulted for appropriate operating expenses and management fees within the municipality. Vacancy rates are figured by building type and local market conditions as well as type of tenants anticipated. In some cases, it may be necessary to include amounts for longer term remedial action expenses, ongoing special remedial action and maintenance costs, reserves and/or environmental insurance. If these are necessary, the J9 cell will calculate an adjusted net operating income. Otherwise, cell J5 will serve this function. This information is gathered and input in lines J6 through J8.
- 14) The capitalization rate is used to calculate a rough project valuation. It is the ratio of the net operating income produced by an asset and its capital cost (the original price paid to buy the asset) or its current market value. The rate used is based on the market and risk involved. Enter the rate at K1. Consult with industry professionals.
- 15) L1 calculates the project's estimated completed value less development costs. A cash return on investment is also calculated. The return on investment (ROI) is the gain or loss on an investment relative to the amount of money invested. It is generally calculated as the net profit divided by the total assets.

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Sources and Uses Chart

The Sources and Uses Chart is used to identify the sources of funds and the potential uses for each of those funds. The spreadsheet should be modified as appropriate for the particular project.

Uses of Funds

Develop a list of various segments or portions of the project that will require funds and the estimated amount of funds needed.

Sources of Funds

List the potential sources of funds and the amounts from each source for each segment or portion of the project identified considering any limitations on the use of those funds. Ultimately, the funds needed should equal the funds available.

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